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# Finance ministry considers shore-up certificates to ease bad loan burden of lenders

BY [DHEERAJ TIWARI](#), ET BUREAU | MAY 09, 2018, 12.28 AM IST

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The finance ministry is looking at an idea to relieve banks of the burden of non-performing loans and allow them to focus on the core issue of financial intermediation by issuing 'shore-up certificates' against their stressed assets to shore up their capital.

"The Prime Minister's Office has passed on a representation-...we are looking at it," a senior finance ministry official said. The idea is on the lines of the structure created to bail out the US-64 scheme of the Unit Trust of [India](#).

A designated public agency will issue provision shore-up certificates (PSCs) to banks to the extent of provision made in the books of banks, finance ministry officials said. The PSCs will be guaranteed by the bank and carry a [coupon rate](#).

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Designated agency to issue PSCs to the extent of



## provision in banks' books

**The certificates** will be guaranteed by the bank, will carry coupon rate

**A trust will** take over provisioned asset for unlocking value using IBC

- ▶ PSCs to be redeemed as and when bad loans are resolved
- ▶ Govt's idea on lines of structure created to bail out UTI's US-64 scheme



A special trust would take over the underlying provisioned asset for monitoring, recovery and unlocking value, using the [Insolvency and Bankruptcy Code](#), officials said. PSCs will be redeemed as and when the [bad loans](#) are resolved. It is not seen akin to bad bank that

takes over the stressed asset. In this case, the bank only assigns the stressed assets and will receive PSCs only to the extent of provisions made.

This will free the banks of the stressed assets as PSCs would shore up their capital, allowing them to lend more. The government would pay the interest on PSCs.

A central asset administrator is envisaged under the framework that would resolve the assets. Banks would get an upside if the underlying loans are recovered well.

The idea has found some support. “The government should look at innovative methods as it has been clear that mere infusing capital has not restored the financial health of banks,” said MP Shorawala, a former independent director at [Central Bank of India](#). “Some amount from the Rs 2.1 lakh crore bank recap plan can be used towards such PSCs,” he said.

The government has already disbursed around Rs 88,000 crore last fiscal. The gross nonperforming assets of public sector banks stood at around Rs 7.77 lakh crore at December-end. There are 11 banks under the regulator’s prompt corrective action (PCA) plan.

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